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SUBJECT: PM SHAIKH KHALIFA DISCUSSES ECONOMIC SITUATION,
LABOR REFORM WITH AMBASSADOR

Classified by Ambassador William T. Monroe for reasons 1.4
(b) and (d).

11. (C) The Ambassador, during a May 17 meeting with Prime Minister Shaikh Khalifa bin Salman Al Khalifa, discussed Bahrain's efforts to attract foreign investment to spur economic growth, and the possible impact of the Crown Prince's labor reform initiative on the business sector.

12. (C) The PM told the Ambassador that, when he sees other countries in the region doing so well economically, he "becomes jealous." Bahrain has good laws and regulations but needs more investment and a stronger work ethic among its people. They should be working instead of talking politics all the time, the PM said. He noted that a day earlier, a Saudi investor had pulled out of a deal to purchase the Marina Club in Bahrain, supposedly because of a concern about required social security payments for employees. He commented that the government should not put obstacles in investors' way.

13. (C) The Ambassador stated that the U.S.-Bahrain free trade agreement had generated interest in doing business in Bahrain among the American business community, and this should assist Bahrain's economy. The PM said that Bahrain had embarked on a path to democracy, but he worried that increased political activity in Bahrain could scare off investors. He encouraged ministers to speak publicly about the government's policy initiatives to improve the economy, so the people would have a better understanding of the positive role the government plays. "If there are problems," he said, "we should hear about them from the people and correct them."

14. (C) In response to the Ambassador's question, the PM said that "everyone is nervous about labor reform." Labor reform could delay development, he claimed. Any legislative changes should be phased in gradually. He said that people look at other regional countries, which do not put restrictions on foreign labor, and wonder why Bahrain is different. He admitted that Bahrainis need to be trained, work harder, and produce more, but asserted that this is the employer's responsibility. He cited the example of the contracting company building the Bahrain Financial Harbor, which had sent 25 Bahrainis to its headquarters in Dubai for training. He stated that Bahrainis were becoming more accustomed to the idea of accepting certain types of work that they would not do before. Bahrainis now work at the Ritz Carlton and other hotels in Manama, and some 2,000 Bahrainis are employed at the upscale Seef Mall. The culture of work is spreading among the citizens, he said.

15. (C) Comment: The Prime Minister, recently returned from an extended trip and vacation in the Far East, appeared more relaxed, fit, and good humored than in previous meetings. His concerns about labor reform parallel those of many in the business community, who share his apprehension of a possible negative impact as a result of the proposed changes.

MONROE